

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER



Natwar M. Gandhi
Chief Financial Officer

June 9, 2005

The Honorable Linda W. Cropp
Chairman
Council of the District of Columbia
1350 Pennsylvania Avenue, NE, Suite 504
Washington, DC 20004

The Honorable Jack Evans
Chairman of Finance and Revenue Committee
Council of the District of Columbia
1350 Pennsylvania Avenue, NE, Suite 106
Washington, DC 20004

Dear Chairman Cropp and Councilmember Evans:

On May 20, 2005, I met with you and representatives from DC Baseball Stadium Associates (DCBSA), whose alternative financing proposal had not been certified. After the meeting, you asked me to compare the revised DCBSA proposal and a District revenue bond plan identifying issues associated with both plans. I have attached a table to this letter that lays out the analysis.

As a result of this comparative analysis, I have identified four major problems with the revised DCBSA proposal for financing the new stadium. Nothing in the revised plan affects my previous decision not to certify the DCBSA proposal.

1. The revised DCBSA proposal is more expensive for the District than the current revenue bond plan that has been passed by Council (see Appendix A).

- As proposed, the revised DCBSA plan requires annual payments of \$49 million (line C42), \$9 million more than the \$40 million (line D42) required for a revenue bond issuance sufficient to finance the stadium and a 7,000 space garage.
- As proposed, the revised DCBSA plan requires \$754 million in funds, rather than \$643 million required for a revenue bond issuance that would also finance a 7,000-space garage (line C6 vs. D6). Even when removing costs associated with the capital expenditures fund, the insurance policy on construction, and capitalized interest, the revised DCBSA plan still requires \$49 million more than a revenue bond issuance that would also finance a 7,000-space garage.

Comparison of Plans			
<i>(in millions)</i>	DCBSA Plan	Revenue Bond Plan (with 7,000 – space garage)	Difference
Total Funds Needed	\$754.1	\$642.6	\$111.5
Less:		-	
Capital Expenditure Fund	\$11.7		
Construction Insurance	\$13.9	-	
Subtotal	\$728.5	\$642.6	\$85.9
Less:	\$48.5	\$11.9	
Capitalized Interest			
Total	\$680.0	\$630.7	\$49.3

- The \$49 million difference is based on:
 - \$21.8 million more in fees (line C28 vs. D28),
 - \$17.3 million more in surety/debt service reserves (sum of C31+C32 vs. sum of D31+D32), and
 - \$10.5 million more in bond and equity insurance (sum of C18+C19 vs. sum of D18+D19).

2. The revised DCBSA proposal raises legal issues that increase the risk of cost and delay in developing the stadium.

- The proposal requires DCBSA and not the District to own the stadium. The Baseball Omnibus Financing and Revenue Act of 2004, effective April 8, 2005 (D.C. Law 15-320; to be codified in the District of Columbia Official Code) finds that it is a public purpose for the District government to own the stadium. The power of eminent domain will likely be used to acquire the land for this public purpose. If the District were to acquire the land and then transfer certain rights and the ownership of the stadium to DCBSA on a non-competitive basis, it is not clear whether this transaction could withstand a constitutional challenge nor if it complies with current local law (See e.g., Section 10-801(a) of the D.C. Official Code (2001)).

3. The uncertainty regarding the legality of the proposal would require the District to proceed on a dual track during financing negotiations. Such a dual negotiation would increase both the costs and the financial risk to the District.

- If the DCBSA team could not obtain a positive tax opinion, insure their bonds, or find equity investors, the District would have to revert back to a revenue bond plan.

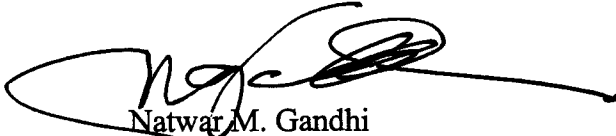
- It will be extremely challenging for the District to dual track this process because it is difficult to negotiate in good faith with underwriters on a revenue bond proposal when it would only be utilized in the event the revised DCBSA plan fails.
4. **To endorse the revised DCBSA proposal, the District would need to provide at least a \$100 million District backstop for the debt service on the bonds and the return on equity to investors.**
- The District would have to guarantee revenues from income taxes and parking on 5,900 spaces, in addition to the revenues from team rent and in-stadium taxes.
 - None of these revenue sources are tested, and the District would take on additional risk by guaranteeing these additional revenue sources.
 - The District would have to include about \$36.8 million in the budget every year until the \$100 million guarantee is used up.

In addition, the DCBSA proposal would require the Council to make several additional policy decisions.

1. **The DCBSA proposal requires the construction of a 7,000-space garage, which according to parking and traffic consultants for the AWC cannot be accommodated above ground on the site.**
 - The consultants also note that a parking structure of this size would cause considerable traffic congestion due to inadequate access/egress points.
2. **The proposal would require a renegotiation of the Baseball Stadium Agreement.**
 - Renegotiation of the Baseball Stadium Agreement could cause the District to lose valuable time.
3. **The DCBSA proposal does not anticipate completing stadium construction until after March 2008, which would cause the District to forfeit \$3.5 million in rent payment from the team.**
 - This penalty would also apply if the District or any proposal were unable to deliver the stadium by the deadline.

After thoroughly re-examining the DCBSA proposal, I continue to be unable to recommend the plan as an alternative financing mechanism for the baseball stadium. Please feel free to contact me at (202) 727-0065 if you have any questions.

Sincerely,



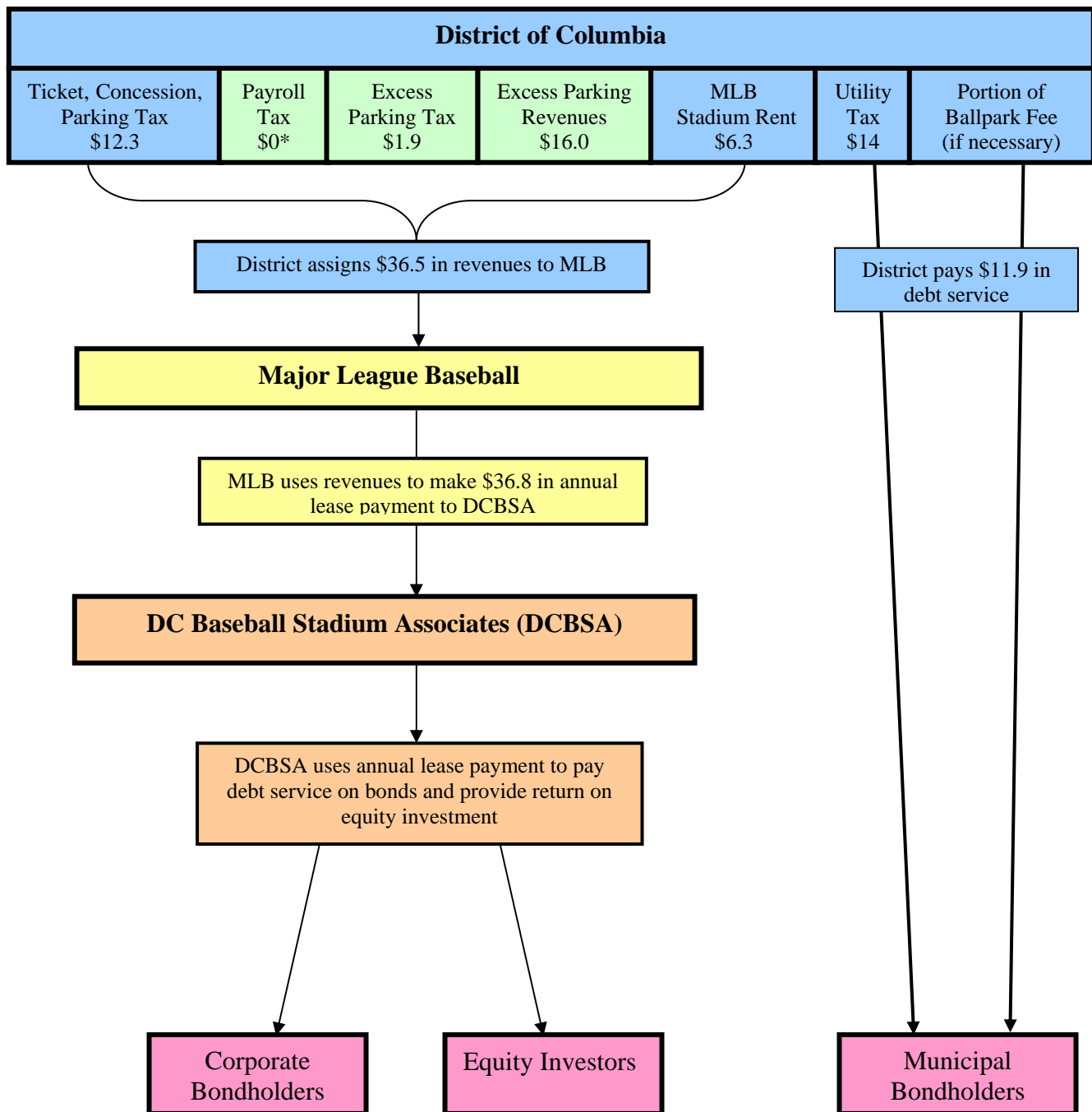
Natwar M. Gandhi
Chief Financial Officer

Enclosures

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Rob Miller, Legislative Counsel, Office of the Chairman

Appendix A: Average Annual Flow of Funds (in millions)



Key:	
	Sources anticipated for repayment of revenue bonds
	Additional sources required by DCBSA plan

Appendix B: Plan Comparison

	A	B	A+B=C	D	E
	DCBSA	DC Revenue Bond Portion	Total DCBSA Plan	All Revenue Bond Plan (with parking)	All Revenue Bond Plan (as proposed)
SOURCES					
Bond Proceeds	414.9	194.0	608.9	596.4	528.0
Alternative Financing Sources	102.6	0.0	102.6	0.0	0.0
Investment Interest	15.8	0.8	16.6	9.7	8.7
2005 Revenues	0.0	26.0	26.0	36.5	36.5
TOTAL SOURCES	533.3	220.8	754.1	642.6	573.2
USES					
Stadium	300.7	0.0	300.7	300.7	300.7
Land, Environmental, Infrastructure	0.0	161.3	161.3	161.3	161.3
Cost Over-run (contingency)	0.0	30.0	30.0	30.0	30.0
RFK	0.0	24.0	24.0	24.0	24.0
Total Project Costs for Stadium without Parking	300.7	215.3	516.0	516.0	516.0
Parking Garage	84.0	0.0	84.0	84.0	16.5
Total Project Costs w/ 7,000 space Parking	384.7	215.3	600.0	600.0	532.5
Capitalized Interest	48.5	0.0	48.5	11.9	11.9
Bond Insurance	15.8	2.9	18.7	12.3	11.3
Equity Insurance	4.1	0.0	4.1	0.0	0.0
Underwriter's Discount	0.0	1.8	1.8	5.8	5.1
Cost of Issuance	4.3	0.4	4.7	1.0	0.9
Total Financing Costs	72.7	5.1	77.8	31.0	29.2
JHS Associates	3.1	0.0	3.1	0.0	0.0
Debt Placement Fee	3.7	0.0	3.7	0.0	0.0
Equity Placement Fee	4.7	0.0	4.7	0.0	0.0
Structuring Fee	10.3	0.0	10.3	0.0	0.0
Total Fees	21.8	0.0	21.8	0.0	0.0
Capital Expenditures Fund	11.7	0.0	11.7	0.0	0.0
Debt Service Reserve Fund	28.5	0.0	28.5	10.7	10.7
Surety	0.0	0.4	0.4	0.9	0.8
Constr. Insurance/Management	13.9	0.0	13.9	0.0	0.0
Total Other Costs	54.1	0.4	54.5	11.6	11.5
TOTAL USES	533.3	220.8	754.1	642.6	573.2
ANNUAL PAYMENTS					
Average Annual Payment for Alternative Source	8.1	0.0	8.1	0.0	0.0
Average Annual Debt Service	28.7	11.9	40.6	38.6	33.1
Annual Capital Expenditure Payment	0.0	0.0	0.0	1.5	1.5
Average Annual Payments	36.8	11.9	48.7	40.1	34.6
ANNUAL REVENUE SOURCES					
Utility Tax	0.0	14.0	14.0	14.0	14.0
Ballpark Fee	0.0	0.0	0.0	14.0	14.0
In-Stadium Taxes	12.3	0.0	12.3	12.3	12.3
Rents	6.3	0.0	6.3	6.3	6.3
Parking Revenues*	16.0	0.0	16.0	16.0	0.0
Parking Taxes	1.9	0.0	1.9	1.9	0.0
Payroll Taxes (Income Taxes)**	0.0	0.0	0.0	0.0	0.0
Average Annual Revenue Sources Available	36.5	14.0	50.5	64.5	46.6
Coverage	0.99	1.18	1.04	1.61	1.35
Cost of Capital	5.23%	4.74%	5.10%	5.06%	5.10%
Total Payments	920.0	357.0	1,277.0	1,203.0	1,038.0

*For the purposes of this comparison, the CFO assumes a 7,000 space garage can generate \$16 million in parking revenues as laid out in the DCBSA proposal. However, the CFO believes the DCBSA parking revenue assumptions are overly aggressive.

**DCBSA assumes \$1.42 million in income tax from MLB players and/or staff. For the purposes of this comparison, the income tax credit is

**Appendix C: Explanation of differences between DCBSA and All Revenue Bond Plan
(based on 7,000 parking space scenario for both plans)
(\$ in millions)**

	A	B	A+B=C	D
SOURCES	DCBSA	DC Revenue Bond Portion	Total DCBSA Plan	All Revenue Bond Plan (with parking)
1				
2	Bond Proceeds	414.9	194.0	608.9
3	Alternative Financing Sources	102.6	0.0	102.6
4	Investment Interest	15.8	0.8	16.6
5	2005 Revenues	0.0	26.0	26.0
6	TOTAL SOURCES	533.3	220.8	754.1

- DCBSA needs \$111.5 million in additional funds to construct a similar stadium and parking garage. (difference of C6-D6)
- Under the DCBSA plan, the District must fund land acquisition, environmental remediation, infrastructure costs and RFK renovations, which would require approximately \$194 million in revenue bonds and would generate \$0.8 million in investment interest.
- DCBSA was informed that \$36.5 million would be available in 2005 stadium-related revenues. However, the DCBSA plan only employs \$26 million of the 2005 revenues.

	A	B	A+B=C	D
FINANCING COSTS	DCBSA	DC Revenue Bond Portion	Total DCBSA Plan	All Revenue Bond Plan (with parking)
17	Capitalized Interest	48.5	0.0	48.5
18	Bond Insurance	15.8	2.9	18.7
19	Equity Insurance	4.1	0.0	4.1
20	Underwriter's Discount	0.0	1.8	1.8
21	Cost of Issuance	4.3	0.4	4.7
22	Total Financing Costs	72.7	5.1	77.8

- DCBSA requires more capitalized interest since repayment of the bonds does not begin until 2009.
- DCBSA will sell taxable corporate bonds only. The District will sell taxable and tax-exempt bonds. DCBSA and the District both assume 200bps for insurance on the taxable bonds. However, the District will only pay 80bps for insurance on the tax-exempt bonds, thus lowering the overall insurance cost.
- DCBSA plan requires equity insurance. The District would not incur this expense under an all revenue bond plan.

	A	B	A+B=C	D
	DCBSA	DC Revenue Bond Portion	Total DCBSA Plan	All Revenue Bond Plan (with parking)
FEES				
24 JHS Associates	3.1	0.0	3.1	0.0
25 Debt Placement Fee	3.7	0.0	3.7	0.0
26 Equity Placement Fee	4.7	0.0	4.7	0.0
27 Structuring Fee	10.3	0.0	10.3	0.0
28 Total Fees	21.8	0.0	21.8	0.0

- DCBSA captures the underwriter's discount for the corporate bonds under debt placement fee (see line C25 below).
- DCBSA plan contains fees that would not be incurred under an all revenue bond structure (JHS Associates, Equity Placement Fee, Structuring Fee).
- The debt placement fee is similar to an underwriter's discount and could have been listed in line A20 above. However, it is listed under fees in order to present the costs as laid out.

	A	B	A+B=C	D
	DCBSA	DC Revenue Bond Portion	Total DCBSA Plan	All Revenue Bond Plan (with parking)
OTHER COSTS				
30 Capital Expenditures Fund	11.7	0.0	11.7	0.0
31 Debt Service Reserve Fund	28.5	0.0	28.5	10.7
32 Surety	0.0	0.4	0.4	0.9
33 Constr. Insurance/Management	13.9	0.0	13.9	0.0
34 Total Other Costs	54.1	0.4	54.5	11.6

- DCBSA chooses to fund the capital expenditures fund from bond proceeds. The District (Sports Commission) would make an annual payment of \$1.5 million (see line item D42 below).
- DCBSA would use a debt service reserve fund for all of the corporate bonds and equity repayment. The District would only employ a debt service reserve fund for the taxable portion; a surety bond would be used for the tax-exempt portion.
- Both DCBSA and the District would purchase construction insurance. DCBSA includes it as an additional line item.

	A	B	A+B=C	D
	DCBSA	DC Revenue Bond Portion	Total DCBSA Plan	All Revenue Bond Plan (with parking)
ANNUAL PAYMENTS				
39 Average Annual Payment for Alternative Source	8.1	0.0	8.1	0.0
40 Average Annual Debt Service	28.7	11.9	40.6	38.6
41 Annual Capital Expenditure Payment	0.0	0.0	0.0	1.5
42 Average Annual Payments	36.8	11.9	48.7	40.1

*For the purposes of this comparison, the CFO assumes a 7,000 space garage can generate \$16 million in parking revenues as laid out in the DCBSA proposal. However, the CFO believes the DCBSA parking revenue assumptions are overly aggressive.

**DCBSA assumes \$1.42 million in income tax from MLB players and/or staff. For the purposes of this comparison, the income tax credit is not recognized.

- DCBSA requires \$111.5 million in additional funds as compared to an all revenue bond plan. Therefore, the average annual debt service payment under the DCBSA plan is approximately \$10 million greater.
- The District will contribute \$1.5 million annually to the capital expenditures fund as opposed to pre-funding the account from bond proceeds. Hence, annual payments would be \$40.1 million versus \$48.7 million under the DCBSA plan.
- Line item D42 corresponds to C30 above.

	A	B	A+B=C	D
	DCBSA	DC Revenue Bond Portion	Total DCBSA Plan	All Revenue Bond Plan (with parking)
ANNUAL REVENUE SOURCES				
45 Utility Tax	0.0	14.0	14.0	14.0
46 Ballpark Fee	0.0	0.0	0.0	14.0
47 In-Stadium Taxes	12.3	0.0	12.3	12.3
48 Rents	6.3	0.0	6.3	6.3
49 Parking Revenues*	16.0	0.0	16.0	16.0
50 Parking Taxes	1.9	0.0	1.9	1.9
51 Payroll Taxes (Income Taxes)**	0.0	0.0	0.0	0.0
52 Average Annual Revenue Sources Available	36.5	14.0	50.5	64.5

- The DCBSA does not recognize the use of \$14 million from the ballpark fee. Thus, the revenues available to pay debt service under the District plan are greater.
- DCBSA includes \$1.42 million in payroll taxes credited to MLB and passed through to stadium owners. OCFO does not support payroll tax credits.

	A	B	A+B=C	D
	DCBSA	DC Revenue Bond Portion	Total DCBSA Plan	All Revenue Bond Plan (with parking)
TOTAL COSTS				
54 Coverage	0.99	1.18	1.04	1.61
55 Cost of Capital	5.23%	4.74%	5.10%	5.06%
56 Total Payments	920.0	357.0	1,277.0	1,203.0

- The DCBSA blended cost of capital is 4 basis points higher than an all revenue bond plan.
- Over the life of the issuances, the District would pay approximately \$74 million more in annual payments under the DCBSA plan.